

**Vicki Crow, C.P.A.**  
**Auditor-Controller/Treasurer-Tax Collector**

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# **INVESTMENT POLICY**

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COUNTY OF FRESNO  
AUDITOR-CONTROLLER/TREASURER-TAX COLLECTOR  
TREASURY INVESTMENT POOL

**INVESTMENT POLICY**

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COUNTY OF FRESNO  
AUDITOR-CONTROLLER/TREASURER-TAX COLLECTOR  
TREASURY INVESTMENT POOL

**INVESTMENT POLICY**

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**1.0 Purpose**

The Auditor-Controller/Treasurer-Tax Collector's policy is to invest public funds in a manner which will provide a market average rate of return consistent with the objectives included herein while meeting the daily cash flow demands of the County Treasury, and conform to all state laws governing the investment of public funds.

Investments differing from this policy shall be made only in circumstances where market timing or economic trends indicate such investments are beneficial. Such investments will require written approval by the Auditor-Controller/Treasurer-Tax Collector.

**2.0 Scope**

This investment policy applies to all financial assets deposited and retained in the Fresno County Treasury Investment Pool.

**3.0 Objective**

The primary objectives, in priority order, of the County of Fresno's investment activities shall be the following:

3.1 Legality. Investments shall only be made in securities legally permissible by the California Government Code, Sections **53635**, **53635.2** et. seq. In recognition of a rapidly changing and expanding marketplace, new concepts or securities shall be reviewed for compliance and possible consideration. Legality issues shall be resolved with County Counsel.

3.2 Safety. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required. Investments should be made in securities of high quality to avoid credit risk and loss of principal. Investments susceptible to wide price fluctuations due to market volatility should be avoided.

3.3 Liquidity. The investment portfolio should remain sufficiently liquid to enable the Treasury Investment Pool to meet all operating requirements which might be reasonably anticipated or respond to opportunities for investments arising from changing market conditions.

3.4 Return on Investment. The investment portfolio shall be designed with the objective of attaining the highest interest revenue, taking into consideration the objectives of this policy and the cash flow characteristics of the portfolio.

3.5 Local Community Reinvestment. When in the best interest of the investment portfolio, and within the confines of other objectives enumerated herein, the investment portfolio may invest in local investment opportunities.

#### 4.0 **Delegation of Authority**

Authority to manage the Fresno County Treasury Investment Pool is derived from Government Code Section 53607. Management responsibility for the investment program, in accordance with this provision, has been delegated to the Auditor-Controller/Treasurer-Tax Collector. This delegation is included in the Ordinance Code of the County of Fresno, Section 2.20.080 and is subject to annual renewal. The Auditor-Controller/Treasurer-Tax Collector shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions (GC 53607).

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Auditor-Controller/Treasurer-Tax Collector. The Auditor-Controller/Treasurer-Tax Collector shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate staff.

The Fresno County Treasury Oversight Committee shall annually review and monitor the Investment Policy. The County Treasury Oversight Committee shall also cause an annual audit to determine the Auditor-Controller/Treasurer-Tax Collector's compliance with the Investment Policy. The cost of the audit shall be considered an Administrative cost of investing. Audit Reports are available to participants of the pool upon request. (GC 27133, GC 27134 and GC 27135)

#### 5.0 **Ethics and Conflict of Interest**

The Auditor-Controller/Treasurer-Tax Collector, the County Treasury

Oversight Committee and staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee shall require the completion of an annual Statement of Economic Interests by each member to be filed with the member's respective agency. This policy sets a \$300 per current filing limit on the amount of honoraria, gifts and gratuities that a committee member may receive from a single source in calendar year.

## **6.0 Prudence**

Investments shall be made with judgment and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, and not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

6.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk of market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

## **7.0 Borrowing for Purposes of Making Investments**

The Fresno County Auditor-Controller/Treasurer-Tax Collector is prohibited from the practice of borrowing for the sole purpose of making investments.

## **8.0 Authorized Investments and Limits**

The following securities are authorized investments for the Fresno County Treasury Investment Pool. Securities shall be valued at amortized cost when determining their percentage to the money in the Treasury Investment Pool. Additions or deviations from this list, in addition to being permissible under the Government Code, require approval by the Auditor-Controller/ Treasurer-Tax Collector. Investments not expressly authorized by law are prohibited. Attachment A summarizes the authorized investments and applicable limits. (CDAC Local Agency Investment Guidelines)

The Auditor-Controller/Treasurer-Tax Collector interprets the authorized investment limits to be based upon the portfolio allocation at the time a security is purchased. The portfolio allocation may temporarily fall outside of these limits due to maturities and fluctuations in the size of the pool after the purchase of a security. Additionally, the applicable credit ratings are interpreted to be based upon the rating at the time the security is purchased.

8.1 United States Treasury Bills, Notes, Certificates of Indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

8.2 Obligations issued by Federal Farm Credit Banks, Federal Home Loan Banks, the Federal Home Loan Bank, or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in obligations, participations, or other instruments of or issued by a federal agency or a United States Government-sponsored enterprise. Although there is no percentage limit on the total dollar amount that may be invested in these issues, prudence should apply for a single agency issue.

Investments authorized in sections 8.1 and 8.2 above may not exceed 85% of the money in the Treasury Investment Pool.

8.3 Bills of Exchange or Time Drafts drawn on and accepted by a commercial bank, otherwise known as Bankers Acceptances, both domestic and foreign, which are eligible for purchase by the Federal Reserve System. Any investment in Bankers Acceptances shall be restricted to the top 150 world banks as determined by their total assets and limited to those institutions in this group whose short term debt (commercial paper) is of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc. or Standard and Poor's Corporation (P-1; A-1+).

Purchases of Bankers Acceptances may not exceed 180 days maturity or 40 percent of the money in the Treasury Investment Pool.

8.4 Commercial Paper of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard and Poor's (P-1; A-1+). Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars and having an "A" or higher rating for the issuer's other outstanding debentures by Standard and Poor's, or its equivalent or better ranking by a nationally recognized rating service.

Investments in Commercial Paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Investments may not exceed 40 percent of the money in the Treasury Investment Pool in accordance with Section 53635 of the California Government Code. No more than 10 percent of the money may be invested in the commercial paper of any one corporation.

8.5 Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, savings association, federal association, or state-licensed branch of a foreign bank. Any investment is to be restricted to the top 150 world banks as determined by their total assets and limited to those institutions in this group whose short term debt (commercial paper) is of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc. or Standard and Poor's (P-1; A-1+). As an alternative to the credit guidelines above, banks, savings associations or federal associations having an "AB" or higher rating as provided for by Gerry Findley, Inc. or a comparable rating service, shall be considered eligible institutions for these investments.

Investments in Negotiable Certificates of Deposit may not exceed 30 percent of the money in the Treasury Investment Pool. No more than 5 percent of the money shall be invested in any one institution.

8.6 Non-negotiable Time Certificates of Deposit issued by a nationally or state-chartered bank, savings association or federal association. Unless fully covered by FDIC or FSLIC insurance, including the interest earned, these investments require full collateralization with government securities totaling 110 percent or mortgages totaling 150 percent of the principal amount in accordance with Government Code Section 53651 et. seq. Any investment is to be restricted to banks, savings associations or federal associations having an "AB" or higher rating as provided for by Gerry Findley, Inc. or a comparable rating service. Any investment will require the approval and execution of a Contract for Deposit by the Auditor-Controller/Treasurer-Tax Collector.

Investments in Non-negotiable Time Certificates of Deposit may not exceed 50 percent of the money in the Treasury Investment Pool. No more than 15 percent of the money shall be invested in any one institution.

8.7 Investments in Repurchase Agreements representing United States Treasury Securities, United States Agency discount and coupon securities, domestic and foreign Banker's Acceptances, commercial paper, and domestic



bank/savings associations or federal associations Negotiable Certificates of Deposit. Investments shall be made only after the execution of a Repurchase and Custody Agreement (Tri-Party Agreement) between the County or the investment manager (if under contract), the dealer and the Custodian. Investments will consist of overnight Repurchase Agreements, which includes weekend placements and maturities; however, securities with longer maturities may be used as collateral for these Agreements. (GC 53635.2)

Excluding circumstances of market-timing and known cash demands, investments in Repurchase Agreements shall be limited to not more than 15 percent of the money in the Treasury Investment Pool. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against these securities. Any exceptions to the maturity or investment amount provisions will require written approval by the Auditor-Controller/Treasurer-Tax Collector.

8.8 Medium-term Notes with a maximum remaining maturity of five years or less issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated in a rating category of "A" or higher, by Standard and Poor's Corporation, or its equivalent or better by a nationally recognized rating service.

Investments in Medium-term Notes may not exceed 30 percent of the money in the Treasury Investment Pool. Investments in such notes will be restricted to maturities of: (1) not to exceed two years if in rating category "A," (2) not to exceed three years if in rating category "AA," and (3) not exceed five years if in rating category "AAA."

8.9 Investment of funds in the Local Agency Investment Fund (LAIF - California) created by law, which the State Treasurer invests through the Pooled Money Investment Account. Money invested in LAIF is available for overnight liquidity; however, it is also subject to a limited number of transactions per month. Money shall be placed in LAIF as alternative liquid investments under the guidelines of this policy pertaining to yield. Investment of funds in the LAIF is limited to \$40,000,000. An exception to this dollar limit is available for bond and note proceeds. The Auditor-Controller/Treasurer-Tax Collector may invest any portion of debt proceeds in the LAIF.

8.10 Shares of beneficial interest issued by diversified management companies, otherwise known as Mutual Funds, investing in the securities and obligations as authorized by the California Government Code, Sections 53601 et. seq. To be eligible for investment, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by two

of the largest nationally recognized rating services, or (2) have an investment adviser registered with the Securities and Exchange Commission with at least five years experience investing in the securities authorized by the code sections noted above and with assets under management in excess of \$500,000,000.

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, or (2) retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500,000,000. (GC 53601)

Investment in Mutual Funds shall not include the payment of any commission that these companies may charge and may not exceed 20 percent of the surplus funds in the Treasury Investment Pool. Only 10 percent of the surplus funds may be invested in any one mutual fund. (GC 53601, 53635.2)

8.11 Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond of a maximum of five years maturity. Securities eligible for investment shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated "AA" or its equivalent or better by a nationally recognized rating service.

Investments in these securities may not exceed 10 percent of the surplus funds in the Treasury Investment Pool.

8.12 Bond proceeds may be invested in accordance with the Government Code provisions, or they may be invested in alternative vehicles if authorized by bond documents. (GC Section 53635.2 and CDIAC Local Agency Investment Guidelines)

8.13 External Investment Managers. The Auditor-Controller/Treasurer-Tax Collector may contract with external investment managers to provide investment management services. These managers may be hired to invest funds not needed for liquidity and to increase the rate of return of the pool by employing an active investment strategy. The external investment manager is allowed to make specific investment decisions within the framework of this investment policy.

External investment managers are required to provide timely reports to ensure that the manager's actions comply with the requirements of the law and this investment policy. External investment managers shall remit, at least quarterly, the interest earnings to the Pool to allow these earnings to be apportioned to the pool participants.

Selection of External Investment Managers is subject to section 13.0 of this investment policy. Additionally, after selection, the manager's performance shall be reviewed against the agreed upon benchmark.

#### 9.0 **Selection of Investments**

Investment shall only be made following a minimum of three competitive comparisons with bid quotations documented and retained for each type of investment.

#### 10.0 **Diversification**

The Treasury Investment Pool shall be diversified by security type and institution.

#### 11.0 **Maximum Maturities**

To the extent possible, investments shall be made to match anticipated cash requirements. Unless matched to a specific cash flow, normal investments will be in securities such that the average weighted maturity of the Treasury Investment Pool shall not exceed one year or 365 days. Proceeds of sales or funds set aside for the repayment of any notes issued for temporary borrowing purposes shall not be invested for a term that exceeds the term of the notes.

#### 12.0 **Selling Securities Prior to Maturity**

Securities purchased shall normally be held until maturity. Occasionally, opportunities will exist to sell securities prior to maturity and purchase other securities (swap/trade). These transactions shall only be considered if the proposed swap/trade enhances the yield over the life of the new security on a total return basis.

Additionally, securities that are no longer in compliance with this investment policy may be sold prior to maturity. Securities may also be sold in order to maintain the liquidity of the pool.

### 13.0

#### **Authorized Financial Dealers and Institutions**

The Auditor-Controller/Treasurer-Tax Collector shall maintain a list of financial institutions authorized to provide investment services. In addition, a list shall also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire, certification of having read County's Investment Policy, and if applicable, depository contracts.

An annual review of the financial conditions and registrations of qualified bidders shall be conducted by the Auditor-Controller/Treasurer-Tax Collector. A current audited financial statement is required to be on file for each authorized financial institution and broker/dealer.

The selection of any broker, brokerage, dealer or securities firm that has, within any consecutive 48 month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the Auditor-Controller/ Treasurer-Tax Collector or member of the Board of Supervisors or any candidate for those offices shall be prohibited. The County will, to the best of its ability, monitor and comply with this requirement.

### 14.0

#### **Confirmation**

Receipts for confirmation of purchase of authorized securities should include the following information: trade date, par value, maturity, rate, price, yield, settlement date, description of securities purchased, agency's name, net amount due, and third party custodian information. Confirmation of all investment transactions should be received by the Auditor-Controller/Treasurer-Tax Collector within five business days of the transaction.

## 15.0 **Safekeeping and Custody**

Investments, excluding Non-negotiable Time Certificates of Deposit, Repurchase Agreements and investments that are under the management of contracted parties, shall be held in custody with the Service Bank or its correspondent or other institutions approved by the Auditor-Controller/Treasurer-Tax Collector. Investments in Repurchase Agreements shall be held in custody by the Custodian to the Tri-Party Agreement.

## 16.0 **Performance Standards**

The investment portfolio shall be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account investment risk constraints and cash flow needs.

16.1 Market yield benchmark. The investment strategy is passive. Given this strategy, the basis used by the Auditor-Controller/Treasurer-Tax Collector to determine whether market yields are being achieved shall be the one-year U.S. Treasury note rate.

## 17.0 **Administrative Cost of Investing**

The Auditor-Controller/Treasurer-Tax Collector may deduct actual administrative costs associated with investing, depositing, banking, auditing, reporting, or otherwise handling or managing of funds. The administrative costs shall be segregated and deducted from the interest earnings of the Treasury Pool each quarter prior to the distribution of interest earnings.

## 18.0 **Credit of Interest Earnings**

Interest shall be credited based on the average daily cash balance of money on deposit in the County Treasury for the calendar quarter and shall be paid quarterly.

## 19.0 **Local Agency Deposit of Excess Funds**

The County Auditor-Controller/Treasurer-Tax Collector is authorized to accept deposits of excess funds from local agencies within Fresno County pursuant to Resolution 98-354 and in accordance with Government Code section 53684.

**Withdrawal of Funds from the Treasury Pool**

The withdrawal of funds by any depositor/participant in the County Treasury Pool shall not adversely affect the interests of the other depositors/participants in the County Treasury Pool. All withdrawals that are not considered as funds being utilized for operations shall be presented to the Auditor-Controller/Treasurer-Tax Collector for review and approval. The Auditor-Controller/Treasurer-Tax Collector shall perform an assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the Treasury Pool as is required by Government Code Sections 27136 and 27133. Prior to the approving a withdrawal, the Auditor-Controller/Treasurer-Tax Collector shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the Treasury Pool. All requests for withdrawals shall be considered in order of receipt and shall in no way affect the ability of the Auditor-Controller/Treasurer-Tax Collector to meet the pool's expenditure requirements.

If the assessment of the effect of the proposed withdrawal does not negatively impact the stability and predictability of the investments and the interests of other depositors, the Auditor-Controller/Treasurer-Tax Collector may authorize a total or partial withdrawal of funds from the Treasury Pool. A total withdrawal of funds from the Treasury Pool by a participant requires a 30 day written notice to the Auditor-Controller/Treasurer-Tax Collector. Withdrawals involving less than the participant's total funds (other than for operational needs) are subject to the following constraints:

- each withdrawal shall be limited to a maximum of \$5,000,000
- no more than two withdrawals of a non-operational purpose are allowed per 30 day period
- at least ten days must lapse before the second withdrawal in any 30 day period will be considered by the Auditor-Controller/Treasurer-Tax Collector
- each withdrawal shall be submitted to the Auditor-Controller/Treasurer-Tax Collector by 9:00 a.m. on the day of withdrawal.

The Auditor-Controller/Treasurer-Tax Collector shall be notified of normal operating expenditures or disbursements in excess of \$1,000,000 as early as possible, preferably three business days in advance of disbursement, in order to adjust the cash position to meet disbursement requirements.

21.0

### **Reporting**

The Auditor-Controller/Treasurer-Tax Collector shall provide the Board of Supervisors with a monthly inventory report and a monthly transaction report of the Treasury Investment Pool. The Auditor-Controller/ Treasurer-Tax Collector shall provide a quarterly investment report to the Board of Supervisors, the County Administrative Officer and the County Treasury Oversight Committee. The quarterly report shall be submitted within 30 days following the end of the quarter covered by the report. Monthly inventory reports and quarterly investment reports are available to participants of the pool upon request. (GC 53646)

The Auditor-Controller/Treasurer-Tax Collector shall provide the California Debt and Investment Advisory Commission, no later than 60 days after the close of the second and fourth quarters of each calendar year, quarterly reports pursuant to Government Code Sections 8855 and 53646. The Auditor-Controller/Treasurer-Tax Collector shall provide the California Debt and Investment Advisory Commission, no later than 60 days after the close of the second quarter of each calendar year and 60 days after the subsequent amendment thereto, the statement of investment policy pursuant to Government Code Section 53646.

22.0

### **Internal Control**

As part of the County of Fresno's annual independent audit, the investment program shall be reviewed for appropriate internal controls that provide assurance of compliance with policies and procedures.

23.0

### **Investment Policy Review**

The investment policy shall be reviewed on an annual basis by the Auditor-Controller/Treasurer-Tax Collector and the investment policy shall be rendered annually to the Board of Supervisors and the County Treasury Oversight Committee. The Board of Supervisors shall accept and approve the investment policy and any changes thereto at a public meeting. (GC 27133) (GC 53646)

**Approved**

\s Vicki Crow, C.P.A.  
Vicki Crow, C.P.A.  
Auditor-Controller/Treasurer-Tax Collector

January 6, 2003  
Date

## APPENDIX A

<u>Permitted Investments/Deposits</u>	<u>Government Code Limits %</u>	<u>Investment Policy Limits %</u>	<u>Investment Policy Term Limit</u>	<u>Rating</u>
Securities of the U.S. Government	No Limit	85%	5 years	N/A
Bankers Acceptances (1)	40%	40%	180 days	N/A
Commercial Paper	40%	40%	270 days	P-1,A-1+
Negotiable Certificates of Deposit (2)	30%	30%	13 months	AB
Non-negotiable Certificates of Deposit (2)	No Limit	50%	13 months	AB
Repurchase Agreements	No Limit	15%	Overnight/Weekend	N/A
Medium Term Notes (3)	30%	30%	5 years	AAA
LAIF (4)	No Limit	\$40,000,000	5 years	N/A
Mutual Funds (5)	20%	20%	5 years	AAA,Aaa
Mortgage-Backed Securities	20%	10%	5 years	AA

- (1) Investment policy limits any investment in bankers acceptances to the top 150 world banks as determined by their total assets and limited to those institutions in this group whose short term debt is of prime quality and of the highest ranking as provided for by Moody's or Standard and Poor's (P-1, A-1+).



APPENDIX A  
(Continued)

- (2) Banks, savings associations or federal associations having an "AB" or higher rating as provided by Gerry Findley, Inc. or a comparable rating service. For negotiable certificates of deposit, no more than 5 percent of the money shall be invested in any one institution. For non-negotiable certificates of deposit, no more than 15 percent of the money shall be invested in any one institution.
- (3) Investments in medium term notes are restricted to maturities of not to exceed two years if in rating category "A", not to exceed three years if in rating category "AA" and not to exceed five years if in rating category "AAA".
- (4) LAIF Board of Directors limits the investment to \$40,000,000, excluding bond and note proceeds. Government Code does not place a percentage limit on the amount of money that may be invested in LAIF.
- (5) Diversified management companies investing in the securities and obligations as authorized by California Government Code, Sections 53601, et seq., shall either (1) attain the highest ranking or the highest letter and numerical rating provided by two of the largest nationally recognized rating services, or (2) have an investment adviser registered with the SEC with at least five years experience investing in the securities authorized by code sections noted in the policy and with assets under management in excess of \$500,000,000.

Diversified management companies issuing shares of beneficial interest that are money market funds registered with the Securities and Exchange Commission (SEC) under the Investment Act of 1940 shall either (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, or (2) retain an investment adviser registered or exempt from registration with the SEC with not less than five years experience managing money market mutual funds with assets under management in excess of \$500,000,000.

Only 10 percent of the money may be invested in any one mutual fund.